

Medical Care and Dependent Care Flexible Spending Accounts Grace Period Questions & Answers

Internal Revenue Service Notice 2005-42 permits a grace period of 2 months and 15 days following the end of each plan year during which unused contributions in either your Health Care or Dependent Care Spending Account may be reimbursed for qualified expenses incurred during the grace period.

This means that since the State of Michigan's Spending Account plan year ends on December 31, you may incur qualified expenses through March 15 of the following year, and use any remaining funds from your previous plan year account as long as you are a participant in the Health Care or Dependent Care Spending Account and are still employed with the State of Michigan on the last day of the plan year.

The grace period should not be confused with the run-out period, which is the period during which you may submit claims for reimbursement out of your prior plan year's account. The State of Michigan's run-out period ends on April 15. This means that you will have until April 15 to submit claims for reimbursement for expenses for the prior plan year.

The following are some basic questions and answers to help you understand how Internal Revenue Notice 2005-42 may affect your Health Care or Dependent Care Spending Accounts.

What happens to my claims during the grace period if I have a Flexible Spending Account for 2008 and 2009 and have money left in my 2008 account?

If you have a 2008 FSA and have money left in your account after December 31, 2008, you may incur claims from January 1, 2009 through March 15, 2009, pay for the expense and submit an ADP Claim Reimbursement Form to ADP. Your claim(s) will be paid from your 2009 account, then on a weekly basis through April 15 the appropriate amount of money will be transferred from your 2008 account into your 2009 account. This is also true if you use your Health Care Debit Card.

What happens to my claims during the grace period if I have a Flexible Spending Account for 2008 and have money left in the account but do not have a 2009 account?

If you have a 2008 FSA and have money left in the account after December 31, 2008, you may incur claims from January 1, 2009 through March 15, 2009, pay for the expense and submit an ADP Claim Reimbursement Form to ADP. Your Health Care Spending Account Debit Card will be inactivated after December 31, 2008. Your eligible claim(s) will be paid up to the balance remaining in your 2008 account.

How should I calculate my future annual contributions for my flexible spending accounts?

You should continue to use only the calendar year (12 months) for calculating expenses for your flexible spending accounts. The IRS notice is intended to provide a safety net for you only if you have not incurred all of your anticipated expenses during the previous plan year.

What happens if I do not submit my reimbursement claim for the prior plan year by April 15?

If a reimbursement request is not submitted by the April 15 deadline for the prior year's account, funds remaining in your account will be forfeited.

Exception: The "Heroes Earnings Assistance and Relief Tax Act of 2008" (H.R. 6081) was signed into law on June 17, 2008. Under this law, individuals called up from the reserves to active military duty for a period of at least six months would be allowed to receive a taxable distribution of their HCSA funds and would not be subject to forfeiture of unused funds. This law is considered an optional enhancement to the HCSA plans. The State of Michigan has adopted this enhancement to the plan.